

**RESPONSES TO FEDERAL REGISTER NOTICE
ON FREE INTERNET FILING AGREEMENT
(i.e., EZ Tax Filing Initiative)**

**THE INTERNAL REVENUE SERVICE
ELECTRONIC TAX ADMINISTRATION
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BACKGROUND

On July 31, 2002, the IRS, Department of the Treasury and Office of Management and Budget (OMB) announced a proposed new agreement to provide easier, secure, and free opportunities for Americans to file their taxes via the Internet. On August 4, 2002, the text of the proposed agreement was published in a Federal Register Notice for public comment. The Federal Register Notice comment period closed on September 4, 2002. This document summarizes that feedback. The analysis and response has not been completed at this point.

According to the proposed agreement, a consortium of private sector companies would work together to offer free online tax filing services, an option that could benefit some 60 percent of taxpayers. Taxpayers would find links to the online tax filing services through a single, centrally-located Web portal at www.irs.gov and available through www.firstgov.gov. The new free tax filing consortium Web page is slated to be online by December 31, in anticipation of the 2003 filing season.

This project fulfills one of the 24 government-wide E-government initiatives that were proposed in the February 2002 budget. It is aimed at supporting the IRS's statutory goals of increased e-filing, pursuant to the IRS Restructuring and Reform Act of 1998, which encouraged the IRS to set a goal of having 80% of Federal tax and information returns filed electronically by the year 2007, using cooperation with, and encouraging competition within, the private sector to increase e-filing.

FEDERAL REGISTER NOTICE RESULTS

As a result of issuing the *Federal Register Notice on Free Internet Filing*, the IRS received 723 comments from individual taxpayers, tax software companies, accounting and legal tax professional associations, individual accounting and legal tax professionals, technology associations, members of Congress, and various advocacy groups.

SUMMARY OF RESPONSES

GROUP	POSITIVE	NEGATIVE	MIXED
Individual Taxpayers	626	3	0
Tax Software Companies	6	1	1
Accounting and Legal Tax Professional Associations	0	4	0
Individual Accounting and Legal Tax Professionals	2	54	2
Technology Associations	6	0	0
Members of Congress	6	0	0
Advocacy Groups	9	3	0

COMMENTS FROM INDIVIDUAL TAXPAYERS

629 of the 723 respondents were identified as individual taxpayers. Over 600 of the comments were received from individual taxpayers using a standard letter - all supporting the initiative. The vast majority of comments stated that taxpayers trust the private sector with the preparation of their tax returns, and that government intervention in an established industry would be costly. Other comments submitted included one from a taxpayer indicating that the initiative was an excellent idea and wanted to know where to find a list of Consortium companies. A separate comment from another taxpayer indicated that the IRS should allow for a taxpayer to file directly to the IRS without the involvement of a paid preparer. Overall, representative comments included:

- “Taxpayers have demonstrated that they trust the private sector to provide on-line tax preparation, and governments at the state level and in many countries have demonstrated that government can't perform this function effectively. Having the federal government get involved in tax preparation is a mistake, and a very costly one.”
- “The Free File Partnership will make on-line tax preparation far more accessible, and ensure that it remains as reliable as ever.”
- “The IRS should provide the tax forms and instructions in an electronic format. If the taxpayer has confidence that he make the proper entries on them, he should be able to do so without the intervention of a paid preparer. Likewise, the taxpayer should be able to transmit the completed forms to the IRS via e-mail or some other electronic means which is the modern equivalent of the postal service.”

COMMENTS FROM TAX SOFTWARE COMPANIES

Eight companies identified as software developers, Internet solution providers or consultants, responded to this FRN. In general, representative comments included:

- “The public/private partnership being considered provides a unique opportunity for responsible corporate citizenship. This proposal shows innovation and a good faith effort by the Administration to work with the online tax preparation industry to find creative ways to provide filing services to more Americans, while saving the public treasury the costs of unnecessarily duplicating existing private sector investment.”
- “We believe the decision to use a public-private partnership as the route to providing free online tax preparation and filing services rather than the President’s fiscal 2003 budget proposal to have IRS itself develop its own online services in competition with the private-sector best serves the public interest and offers a tremendous opportunity for cooperation and success.”
- “The Respondent opposes the Agreement on both economic and legal grounds and respectfully submits its grave concern that the Agreement and the Consortium are anti-competitive and illegal, will fail to accomplish their suggested objectives and will harm taxpayers and consumers of tax preparation and e-file services over the long term.”

- “If the government is also proposing to use current tax dollars to subsidize the ‘non-profit consortium’ that will provide the free e-filing services, then we will be out additional millions of dollars, multiplied by 10, as the opportunity cost for revenues that will not be replaced in the form of taxable dollars. What you are proposing will cause one of the most massive recessions in the history of the United States of America.”

COMMENTS FROM ACCOUNTING AND LEGAL TAX PROFESSIONAL ASSOCIATIONS

Representative comments included:

- “...we understand that there is a proposal for the IRS to provide the public online tax return preparation service free of charge for qualifying taxpayers. The IRS would directly link such taxpayers to for-profit software companies to prepare the tax returns. This in effect places the IRS in the commercial marketplace. While different in scope than an earlier proposal of the same nature about which xxx voiced deep concerns, we believe that the current proposed activity raises questions about its effect on the tax practitioner community and the propriety of a venture of this nature.”
- “I do not believe that this consortium can provide proper services to their likely target market without becoming predatory. The temptation is simply too great. Further, the consortium is biased against smaller and independent professionals who can provide more caring and higher quality services than what the consortium could possibly offer. Ultimately, I believe it would hurt the smaller tax professional who can better watch out for the interests of the often-gullible taxpayers most likely attracted to this consortium.”

COMMENTS FROM INDIVIDUAL ACCOUNTING AND LEGAL TAX PROFESSIONALS

Representative comments from enrolled agents and CPAs included:

- “I feel it is an unreasonable goal to have this many people filing free. I provide a service. This service is utilized by the general public for many reasons. Some of which include knowledge - people do not understand what the laws enable them to claim. Free filing on the Internet will NOT take care of that. Time. Some people just don't want to bother with filing - a bit similar to changing oil in a car. Free filing on the internet will NOT sway these people.”

- “The IRS plan to enter into an agreement to provide free online tax preparation and efilings services is an extreme disservice to professional tax preparers. Tax professionals, with the tax code as complicated as it is, provide an immeasurable service not only to their clients, but also to the IRS. In my many years of experience, I could testify to the fact that the error rate on tax returns self-prepared by individual taxpayers whether prepared manually or by computer is extremely high compared to that of tax professionals. I would submit that this initiative would cause the error rate to worsen, costing the government many more tax dollars than it will gain by this attempt to increase the efilings rate. Instead, the IRS should be utilizing the tax professional community to achieve its efilings goals, by offering better incentives to efile. This approach would also result in more accurate filings and increased tax revenues.”

COMMENTS FROM TECHNOLOGY ASSOCIATIONS

Representative comments from technology associations included:

- “We believe that the purposes for this initiative listed in the Notice accurately reflect the goal of doing something truly significant for the American people. The approach demonstrates the enormous potential of creative private-sector/government partnerships for serving the public and preserving a competitive private sector of service providers.”
- “...the proposed Free File Partnership appears from the terms of the agreement to be a win-win-win for citizens, government and industry by providing for Internet-based tax services online at no charge. Therefore, we believe that the proposed voluntary partnership is a creative solution that will benefit both citizens and business, while maintaining a strong commitment to the voluntary tax compliance process.”

COMMENTS FROM MEMBERS OF CONGRESS

Six Congressional offices responded in favor of the agreement. Comment included:

- “I write in strong support of the intent to enter into an agreement to facilitate free preparation and electronic filing of tax returns for qualifying taxpayers. The agreement represents the best kind of public/private partnership – one

that offers a convenient way for taxpayers to fulfill their 'voluntary compliance' obligations conveniently and efficiently, while maintaining the privacy and independence of the act of preparing and submitting their tax return."

- "This consortium, employing the technology and services of an experienced tax preparation industry, will aid the government in boosting e-filing numbers while maintaining the highest levels of privacy and security."
- "This consortium melds the appropriate roles of government and the private sector to bring taxpayers a system that is technologically advanced, fiscally sound and personally secure. I encourage the IRS and their partners to work toward bringing this consortium to fruition."
- "In an effort to increase the electronic filing of tax returns to the 80% level by 2007, the IRS has properly seen fit to join with the private sector companies that have the know-how and infrastructure to help low-income families use our country's technology to their advantage. Instead of creating a new, large and unnecessary bureaucracy, the IRS has recognized - and will put to use for the public good - the expertise of the companies that make up this consortium. Reaching out in this manner is not just good government, it is the right thing to do."

COMMENTS FROM ADVOCACY GROUPS

Representative comments included:

- "xxx believes that this proposed consortium represents the best possible way to provide the greatest services at the lowest costs to American consumers. By working with the existing, competitive marketplace of software providers, the government will save taxpayers hundreds of millions of tax dollars, while delivering a valuable service."
- "In reviewing the Treasury-IRS proposal for a national public/private partnership to provide free online tax preparation and filing services to underserved segments of the U.S. taxpaying population, we were pleased to see the creativity of the solution design, its reliance on the natural competitive forces of the private enterprise system, and its marriage of the twin commitments of governmental social responsibility and voluntary corporate citizenship."

The negative comments included:

- "We believe that the proposed Agreement is seriously deficient and does not protect the interests of taxpayers, especially low-income taxpayers. Instead of entering into this Agreement, which is of limited benefit and exposes taxpayers to the risks of usurious tax refund loans, we urge the IRS to provide e-filing on its own website. We also

urge the IRS to provide more free tax preparation services to low-income taxpayers. In the alternative, the IRS should amend this proposed Agreement to remedy the gaps described in this letter and to widen the circle of groups involved to include representatives to low-income taxpayers and consumer organizations.”

- “While we have come to understand the critical importance of expanding the number of taxpayers filing their tax returns through e-file, and endorse the IRS’s overall e-filing initiative, we have serious concerns regarding the potential negative impact of the proposed Agreement on low-income taxpayers. ... We strongly desire that low-income taxpayers be able to access other free and low-cost services, as long as these services ensure the maximum refund to the low-income taxpayer, avoid high interest loan products such as Refund Anticipation Loans, do not add unanticipated fees, and respect taxpayer privacy concerns.”

NEXT STEPS

The IRS will proceed to assess the public feedback. When completed, it is anticipated that a final analysis and responses to the feedback will be provided in a final Federal Register Notice.